

## A matter of health

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**People agree life satisfaction and health are the most important aspects of well-being.**

Your health is one of the most important parts of your well-being. In study after study around the world people agree life satisfaction and health are the most important aspects of wellbeing<sup>2</sup>. It isn't hard to see why: without your health, every other part of your life becomes harder to appreciate.

Looking after your health has a few inter-linked components. One aspect is prevention, and another is cure. When you're looking for a cure, you have to have two things. You have to have access to the right medical services – like a doctor, medicine or a hospital. Then you have to be able to pay for those services.

Being able to pay for these services is where financial well-being finds its overlap with health. In South Africa, there are three ways to pay for medical care:

- 1 The State
- 2 Insurance
- 3 Savings

Because the State only provides access to public facilities for medical care, many employed South Africans use a combination of health insurance and savings to pay for private care.

Within the context of South African health insurance there are two separate vehicles, the first is a medical scheme, the second is medical insurance. These are two very different types of protection and the distinctions are important to understand.

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- > The state
- > Insurance
  - > Medical aids
  - > Health insurance
- > Savings

### A comparison of medical aid and regular insurance

South African medical aids are actually quite special as a form of health insurance. Firstly, your medical aid can't earn a profit. Service providers to your medical aid, like its administrator, can earn a profit, but your medical aid can't. Secondly, your medical aid can't take into account personal factors about your health when it prices your cover. This reflects the principle of social solidarity. Within the medical space, the term commonly used is 'community rating' and it means that every member of a medical aid who has chosen the same level of cover has to be charged the same price.

Compare this to other forms of insurance. If you've ever tried to take out life or disability insurance in your individual capacity (rather than through your company), they probably ran you through a battery of questionnaires and blood tests. Then, based on your results, they often alter the type of cover you have or they charge you a higher price. In a way, this means they're 'personalising' your cover, precisely to minimise the risk they face by insuring you.

Medical aids can't do this. This makes the cost of health insurance far more predictable – and reliable – than it is in other parts of the world. The community rating structure makes health insurance more expensive for young, healthy people than elsewhere, but it also makes it far more reliable and accessible for all parts of the population.

However, medical aids are not the only form of health insurance available in South Africa.

## Medical aids as insurance

Because medical aids are a form of insurance, many of the questions we asked in the section on insurance are relevant to this discussion. As with other forms of insurance, an adviser needs to help an individual balance their use of insurance against their use of savings and work out which is most useful.

But medical aids are different from other forms of insurance. The reality is that most individuals use their medical aids regularly. Life insurance you only use once. Disability insurance you may never use. You may use short-term insurance occasionally but with little regularity. All of these forms of insurance are unpredictable.

Your health is not as unpredictable. Most people visit the doctor a couple of times a year. The bigger your family, the more likely you are to see the doctor. If you have a chronic condition or poor health, you use medical care more frequently. Everyone is supposed to see the dentist once a year. Some specialist visits are necessary for annual check-ups. Babies have to go for immunisations. So, there is an element of your medical costs that are fairly predictable.

There is also an unpredictable element to your need for medical care. Car accidents, heart attacks and cancer can all be almost impossible to predict. Maybe you have a family history, but even if you do, the timing is unknown. This is where medical aids become more like other forms of insurance.

## Returning to our decision-making framework

### 1 Is the liability associated with the insured event limited?

In the case of medical aids, the insured event is using medical care. In some cases, this cost is limited. For instance, if you go to the doctor and they prescribe medication, you have a fairly clear idea of how much this will cost, and the cost is limited. However, if you are in a car accident, you don't have a clear idea of what those total costs could be and they could be very high. Similarly, with diseases like cancer, the cost of medical care can increase very rapidly.

These two types of events divide into day-to-day cover and major medical cover. Day-to-day cover includes things like seeing doctors and buying medicine. It has a level of predictability and is unlikely to accelerate rapidly. Self-insurance could apply.

Major medical cover includes emergencies, in-hospital treatment and diseases like cancers. Costs could be unlimited. Self-insurance could be unrealistic.

### 2 Do you have enough emergency funds to absorb the loss of the insured event?

Self-insurance for day-to-day cover seems viable. It requires two things. First, an adviser will need to help an individual build a fairly good estimate of what they are likely to spend on doctors, specialists, medicine and so on each year. Second, an adviser would need to ensure that the individual has saved enough money to cover this.

Mixing your health saving with your emergency fund would not be prudent. Emergency funds are to cover all an individual's 'what-ifs'. What if you crash your car? What if you're unemployed for a few months? What if...

Most years you don't crash your car or lose your job, but you do go to the doctor. Because you're likely to spend this money, you need to save for it specifically and not lump it in with all your 'what-ifs'.

### 3 Do you have social structures to support you should you incur the loss?

Social structures can be less relevant once you've incurred medical costs. Once they've been incurred, they have to be paid.

At this stage, you would need to have a social structure that allows you to ask people for money directly, rather than in-kind help like childcare which may be relevant as alternatives to life or disability cover. In the case of day-to-day cover, this could work. In the case of major medical expenses, your social support would have to be extensive to bear the costs.

### 4 Will you be able to live your life as you wish if the insurable event occurs or could you adapt your new lifestyle?

Adaptability is a less feasible strategy for health insurance. While there are ways to control medical costs once they are incurred, a mechanism needs to be found to pay for it.

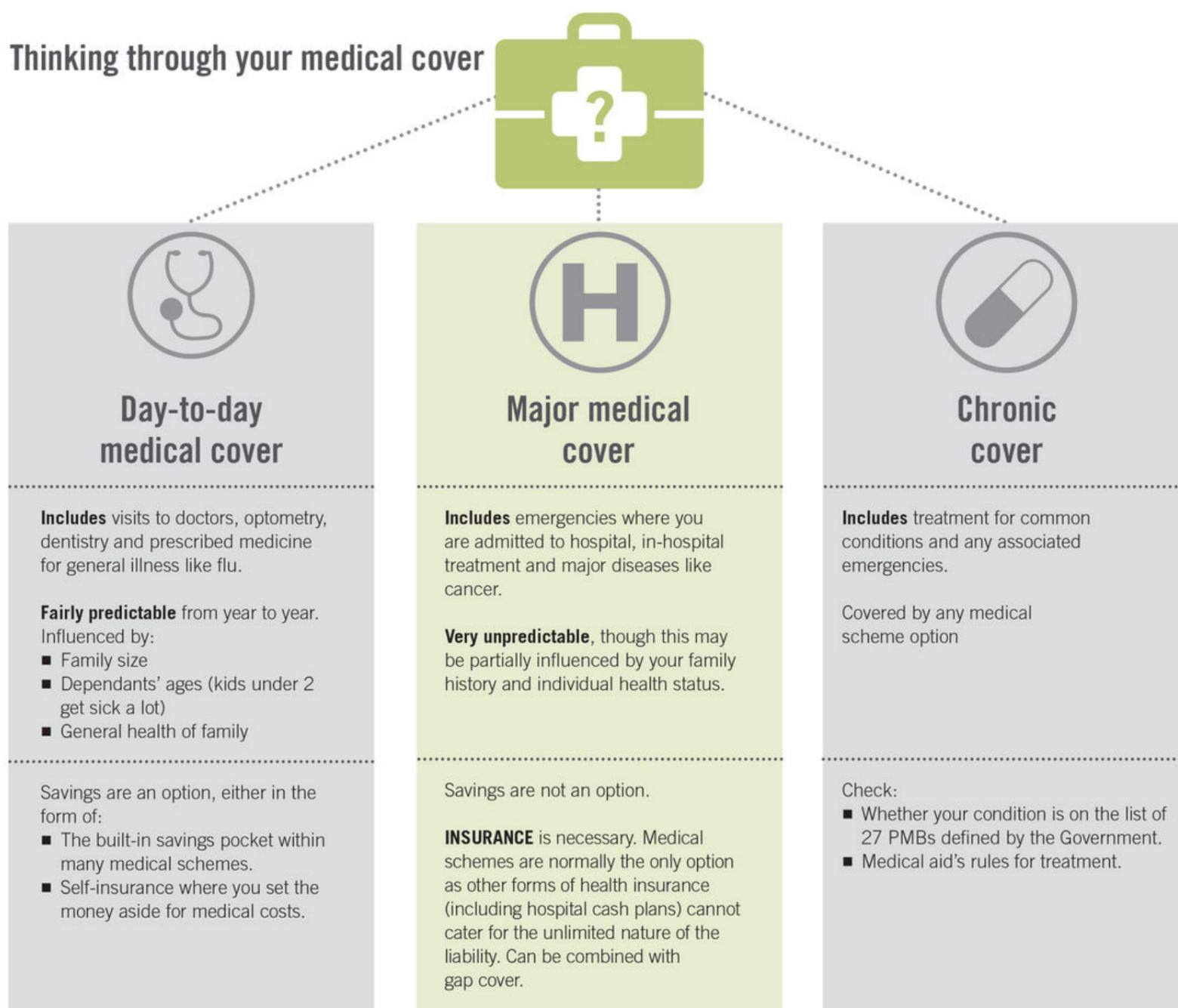
## What about chronic cover?

Chronic diseases include asthma and diabetes. They are common in the population, require regular treatment and are unlikely to be fatal, if treated correctly. The costs of chronic care cover both the regular treatment – consultation with the relevant doctors and medication – and the cost when a chronic disease puts you in hospital.

In South Africa, chronic care is covered by ‘prescribed minimum benefits’ (PMBs). What this means is that every option on every medical aid has to pay for the chronic care of these conditions – even if the option is only a hospital plan.

Prescribed minimum benefits are often blamed for the high costs of medical aid in South Africa. In a sense this is correct. But this is also part of the ‘social solidarity’ aspect of cover in South Africa and it means that even the chronically ill can get cover.

**Important note: Medical aids are allowed to have certain rules for how a chronic condition is treated. If an individual does have a condition, the adviser could help them check what those rules are and evaluate whether they can live within these.**



## Managing the costs

What you pay for your medical cover is not based on your personal profile. So, what is it based on?

It is based on the profile of the people who choose the same option on the same medical scheme as you. This is referred to as your risk pool. Each option has a set of rules about what it does and doesn't pay for. How generous these rules are has some effect on the price of the option, but so does the claims history of people on that option. If people claim often and there are a lot of costs for the scheme to pay, the risk of that pool goes up and the price of that option on that scheme goes up. If people don't claim often, the risk goes down and so does the price.

One of the ways in which medical aids have been trying to bring down the price of cover is by introducing rules that allow them to control costs. In Benefits Barometer 2014: Fine-tuning the employee benefits system, we discussed a number of these cost control measures. The implication of this is that the more rules you're willing to follow, the lower your cost of cover.

Most medical aids offer a network option where they have rules about which doctors you may see, what medicines you can use and what hospitals you can visit. Other options on a medical aid may only restrict one of these aspects – say which hospital you can use. Increasingly, medical aids are developing rules for which types of procedures should be done in a day clinic, rather than a full-service hospital. Day clinics are normally less expensive.

Another way to lower costs can be to accept higher co-payments or deductibles. These are like excess payments in regular insurance. It means that you have to pay the first portion of a claim yourself. This takes us back to the need for savings. If you choose an option with higher copayments, it may reduce the monthly cost of your medical aid, but it will increase your need to put savings aside, in case.

If medical aid is placing a strain on an individual's budget, an adviser may want to help them identify more cost-effective options.

Savings are an interesting aspect. A number of medical aids are offering options which build savings into the medical aid itself. This means that the cost of your day-to-day cover comes out of a savings pool, rather than your risk pool. That way, what other people claim does not affect the cost of this aspect.

As with other forms of insurance, **an adviser needs to help an individual balance their use of insurance against their use of savings** and work out which is most useful.

### The ins and outs of savings plans

Medical aids pay for day-to-day cover in one of two ways. In a traditional plan, your day-to-day cover comes out of the same risk pool as your major medical cover. Everyone on the plan puts money in, everyone takes money out. The alternative to this is the savings plan where your day-to-day cover and major medical are handled separately. Major medical is part of the risk pool and your day-to-day cover is your own savings.

A benefit of saving within your medical aid is that they normally make the full pool of your savings available at the beginning of the year. Say you pay R1 000 in savings each month. If you saved this yourself, on the first of January you wouldn't have any savings available. In a savings option within a medical scheme, the full R12 000 that you will save over the year is available on 1 January.

Even simple savings plans have many rules about what you can spend on and how much you can spend on different types of healthcare needs. There are also more complicated versions of savings plans. In these versions, in addition to your savings, there is an additional portion of day-to-day cover that you can claim from the risk pool. This could come in many forms. It could come in a fixed amount once you've spent your savings plus an additional amount from your own pocket. It could be unlimited. It could be for specific types of use – for instance, blood tests and X-rays, or for ultrasounds if a woman is pregnant.

What makes this so complex is these options switch between three forms of funding: your savings in the medical scheme, your out-of-pocket expenses and the risk pool. And they can do so in quite complicated ways. For instance, you may be able to access your savings in the medical scheme to pay R100 for your medicine, but the scheme only counts R50 to your threshold.

The rules around savings in a medical scheme and their relationship to day-to-day cover can be complex. This can have benefits – as it often means you have access to the risk pool for some of your day-to-day cover if these costs rise suddenly. But it also has additional costs and complexities compared to saving separately from the medical aid.

## Alternatives and complements to medical aids

Medical aids may be the most common form of health insurance in South Africa, but they are not the only way to fund medical care. Beyond using savings if an individual self-insures, the diagram shows some alternatives that an individual could consider. It is not exhaustive.

### Day-to-day cover

Primary healthcare is available through the State at clinics. However, this is generally only free if your income is low and you are not a member of a medical scheme.

Some employers offer occupational health schemes for their employees. This only covers employees and not their families or dependants.

### Major medical – in-hospital cover

Emergency care and in-hospital care are available at State hospitals, but are only free if your income is low and you are not a member of a medical scheme.

If you have been in a road accident, some cover should be available in both State and private facilities to be paid for by the Road Accident Fund (RAF).

Hospital cash plans pay a fixed cash amount per day that you are in hospital. There is no relationship between the hospital's charges and this fixed amount.

Gap cover is available for medical aid members to supplement major medical for in-hospital costs only. This often focuses on specialists who may charge more than the medical aid will pay. Some of these products will cover co-payments and other gaps that arise when you go for options with more rules and limits on hospital use.

## Major illnesses

Dread disease cover pays out a fixed amount when you're diagnosed with a specific disease of a specific severity (for example cancer). Like hospital plans, the fixed amount is not related to the cost of medical care. This type of cover is subject to the same kind of tests, questionnaires and exclusions as individual life cover.

## Life-altering injuries & illness

Disability cover pays out either as a lump sum or a monthly amount when someone can no longer earn their normal income. It is meant to cover the loss of income, not the costs of medical care. It is subject to tests, questionnaires and exclusions if taken out on an individual basis (rather than on a group basis through your employer).

Subject to conditions, you may be eligible for the State disability grant or the unemployment insurance fund (UIF) or both.

## Getting back into the detail

Choosing how to manage the costs of your healthcare can be tricky. Even once you have a sense of what strategies you would like to use, the specific rules of specific options on specific medical aids can be intricate. This intricacy makes it tricky to compare options both within and between medical schemes.

The claims history of the people on that option has a large influence on the pricing of that option. This means that establishing the cost-effectiveness of various options is not a straightforward exercise.

Once an individual has had their conversation with their adviser about how they want to tackle funding their medical care, there is still a lot that will need to be covered on the detail of picking a medical aid option. Ideally, this kind of advice would consider an individual's history with medical aids, their family structure, their preferences in terms of strategies and in terms of the types of rules they can comply with, and affordability.

## Concluding thoughts

- > Health is a critical component of well-being.
- > The primary form of health insurance available to employed people is medical aid.
- > Medical aids have to price based on a community rating, not on your individual risk profile.
- > Social and adaptive strategies are not meaningful alternatives to financial strategies for covering healthcare costs.
- > Lowering the cost of medical aid normally involves following more rules and saving more on the side.
- > There are alternatives to medical aid, but in most cases they can't guarantee that all your costs will be covered.

## References

- 1 Bhargava, Loewenstein & Syndor (2015)
- 2 Helliwell, Huang & Wang (2015)

## Article tags

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